

# REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

## ANNUAL FOLLOW-UP EXTERNAL AUDIT MANAGEMENT LETTER AND FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2007

INTERNAL AUDIT REPORT 220808-16

DECEMBER 31, 2008



December 31, 2008

Councilman Ron Webb  
Chairman, Shreveport City Council

Dear Councilman Webb:

Subject: IAR 220808-16 - Annual Follow-Up on the External Audit Management Letter  
Financial Statement Findings, and Passenger Facility Charge Program for the Year  
Ended December 31, 2007

Attached please find the report mentioned above. Management comments are included  
in the report.

Sincerely,

Leanis L. Graham, CPA, CIA  
City Internal Auditor

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**ANNUAL FOLLOW-UP  
EXTERNAL AUDIT MANAGEMENT LETTER,  
FINANCIAL STATEMENT FINDINGS AND PASSENGER FACILITY  
CHARGE PROGRAM  
FOR THE YEAR ENDED DECEMBER 31, 2007  
INTERNAL AUDIT REPORT (IAR) 220808-16**

**BACKGROUND**

This report covers the results of our annual follow-up on the December 31, 2007, external audit reports including the:

- Management Letter;
- Financial Statement Findings Reported in Accordance with Government Auditing Standards (“Independent Accountants’ Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards” and “Independent Accountants’ Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs and Schedule of Expenditures of Federal Awards” - henceforth referred to as “other reportable findings”) and;
- “Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance and on the Passenger Facility Charge Revenues and Disbursements Schedule” – henceforth referred to as “other reportable findings.”

During their audit of the City of Shreveport’s 2007 annual financial statements, the external auditors brought to management’s attention certain weaknesses involving the internal control structure and its operations that they considered to be reportable conditions according to Government Auditing Standards.

In a management letter and other reportable findings dated August 8, 2008, the external auditors reported weaknesses and management’s responses to those weaknesses.

**OBJECTIVES**

We have completed the annual follow-up on the external audit management letter and other reportable findings. This follow-up was performed in accordance with the Internal Audit Office’s Operating Instruction A.210.

The follow-up objective was to determine the current status of management’s responses.

**SCOPE AND METHODOLOGY**

The scope of the follow-up included obtaining a current statement from management explaining the status of each reported response.

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The methodology of the follow-up included interviewing and requiring appropriate city employees to complete and sign a questionnaire that defined the status as follows:

- **COMPLETE** - Management's response was implemented.
- **PARTIALLY COMPLETE** - Management's response was partially implemented.
- **NO PROGRESS** - No action was taken regarding management's response.

The current status of each response is listed in the following index and the supporting details follow in the report.

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## A. 2007 MANAGEMENT LETTER

### SHREVEPORT REGIONAL AIRPORT

#### 1. GRANTS

During our testing of the Airport Improvement Grant, we noted five weekly payroll submissions in a selected construction file lacked a Statement of Compliance form.

**Management's response** – We agree that a five weekly payroll submission did not contain a Statement of Compliance form. We will thoroughly review our files in the future to ensure that all payrolls submitted contain a Statement of Compliance form.

**2008 STATUS - (reported by the Projects Manager) – Complete.** The Projects Manager, Engineers and Accounting Specialists verifies the Certified Payrolls and ensures that Statement of Compliance Forms are attached. A copy of the Payment Processing Checklist and a copy of the Engineers letter are attached.

*<Auditor's Note> The Payment Processing Checklist and Engineers Letter is included in the work paper file.*

### COMMUNITY DEVELOPMENT

#### 2. GRANTS

During testing of the Community Development Block Grant, some projects did not have environmental reviews performed as required by the grant.

**Management's response** – We agree that some projects did not have environmental reviews performed as required by the grant. A checklist will be followed to ensure that files contain all required information.

**2008 STATUS - (reported by the Director of Community Development) – Complete.** The housing division developed a CDBG File Checklist that is utilized by the housing staff to ensure that all required documents are contained in the file. The attached checklist has a column to record information on environmental screening. It is listed under the section on property information item #19.

*<Auditor's Note> The CDBG File Checklist is included in the work paper file.*

### FINANCE

#### 3. PAYROLL

During our routine audit tests, we noted that three people perform substantially all payroll functions. Although this concentration of responsibilities may be efficient, it lacks strong internal controls to safeguard the payroll function. Payroll is a likely area for

numerous errors and possible irregularities to occur due to the number of calculations involved. Better segregation of duties will enhance controls to detect any such errors and irregularities and provide for much greater safeguarding of assets. Management should evaluate the costs versus the benefits of further segregating these duties or adding monitoring or other compensating controls.

**Management's response** – We agree that segregation of duties enhances controls, but we feel that the cost of additional personnel to achieve this is not justified due to the controls in place through the payroll system and those imposed by management. Additional personnel would be needed since only two of the three payroll employees can complete a payroll and one of them must complete the payroll when the other one is out.

**2008 STATUS - (reported by the Controller) – Complete.** As we stated, additional personnel would be needed. Due to current budget constraints this will not be possible. The Accounting Division had three full-time employees cut from our 2009 budget.

#### **4. JOURNAL ENTRIES**

During the audit, it was noted that some journal entries were not formally authorized. We recommend that a member of Management review and approve all nonstandard journal entries and initial the support for the entries to document their approval. This process could improve controls over adjustments to the general ledger.

**Management's response** – We agree that nonstandard journal entries should be approved by management. The Controller will initial all journal entries considered to be nonstandard.

**2008 STATUS - (reported by the Controller) – Complete.** The Controller is currently initialing all journal entries considered to be nonstandard.

#### **5. GRANT MATTERS**

Based on our review of the schedule of grants and contracts and related receivables, we noted a potential lack of communication between various City employees/departments and the Finance Department. As a result, receivables from grants and contracts dating back multiple years were deemed uncollectible during the audit period and had to be written off. We recommend that Finance and other departments communicate on a regular basis about open projects and amounts billed to grantors. Additionally, management should review grant receivable balances periodically and take the appropriate action to close out old amounts.

**Management's response** – We agree that communication with other Departments and Finance regarding grant balances could be improved. We will continue to send out grant confirmations to grant administrators and will review receivable balances and adjust if necessary.

**2008 STATUS - (reported by the Controller) – Complete.** We are currently communicating with various grant administrators to ensure that balances and budgets are correct. Grant confirmations will be sent out in December.

## **6. GRANTS**

**a.** During our audit, we noted no set procedures for the invoicing of grant expenditures and that the current invoicing practice has contributed to the City's delay in recording revenue in a timely and accurate manner. We recommend policies and procedures be developed and implemented to ensure that invoices are sent to grantors at least on a quarterly basis. This could potentially expedite cash collections and improve the accuracy of the grants receivable balance.

**Management's response –** We agree that in some instances, invoicing of grant expenditures has been delayed. The Accounting Division will work with the various grant administrators to improve this process to ensure more timely drawdowns.

**2008 STATUS - (reported by the Controller) – Complete.** The Accounting Division is working with grant administrators on a regular basis to ensure that drawdowns are done timely.

**b.** In addition, we noted that the City does not currently have a Grant Administrator position. We recommend that the City evaluate the need for such a position that could streamline the grant billing/reimbursement process and all other grant related processes throughout the City. This position could also standardized the grant application process and potentially lead to additional funding sources for the City.

**Management's response –** We agree that a Grant Administrator position could possibly improve the grant related process. We will take this into consideration.

**2008 STATUS - (reported by the Controller) – Complete.** Due to current budget restraints, it is unlikely that a Grant Administrator position will be created. The Finance Department will lose nine full-time positions in the 2009 budget.

## **7. CLAIMS REMAINING OPEN FOR EXTENDED PERIODS**

During our review of the actuary's report on estimated outstanding liabilities, we noted that the general liability had open claims dating back to 1990 and auto liability had old outstanding claims as well. The volume of old outstanding claims is unusual for a public entity. The City should periodically review the list of open claims to determine whether there is any unusual activity in its claims management practices and whether action needs to be taken to get the matters resolved. Active monitoring of the claims could potentially reduce the City's recorded liability.

**Management's response -** While the actuarial report noted that the volume of old outstanding claims is unusual for a public entity, the report further stated the following



for general liability claims: "However, of the 22 claims from 1996 and prior that remained open with case reserves totaling \$646,000 as of December 31, 2006, only 9 remain open as of December 31, 2007, with about 467,000 remaining in case reserves. Furthermore, all but 2 of the 13 claims that closed during 2007 closed without additional dollars paid on them. The large percentage of claim closures over the past year, the decrease in case reserves and the minimal amount of paid dollars in closing the claims is encouraging." In regards to the automobile liability program, the report stated: "However, for accident periods prior to 2002, of the 30 claims which were open with case reserves totaling \$496,000 as of December 31, 2006, only 7 remain open with case reserves totaling \$124,000. In addition, all the claims that closed during 2007 closed without further payment. We are encouraged to see this much claim closure activity."

The City will continue to monitor open claims in an effort to reduce its recorded liability.

**2008 STATUS - (reported by the Controller) – Partially Complete.** Improvement is being made in identifying and closing non-litigation claims. Unfortunately, litigated claims can be open for long periods of time. Effort is focused on ensuring that as many old claims as possible are closed.

## **8. ADDITIONAL INTERNAL CONTROLS**

During the course of the audit, we noted that employees are not required to take vacations and have someone else perform their duties in their absence. This program, if implemented, could improve the City's internal control over financial reporting and its assets.

**Management's response** – While the majority of the employees do take vacation routinely, we will consider our options requiring employees to take vacations periodically.

**2008 STATUS - (reported by the Controller) – No Progress.**

## **9. CONVENTION CENTER HOTEL**

Based on our audit procedures performed during our audit of the Hotel fund, we noted that the Hotel does not have a formal approval process for receivables and related allowances or room rate override reports. We recommend that a member of Hotel Management formally review and approve these reports. This process could improve internal controls.

**Management's response** – Hotel Management will review and initial these reports.

**2008 STATUS - (reported by the Controller) – Complete.** Receivables and related allowances or room rate override reports are now reviewed and initialed by Hotel management.

## 10. OUTSTANDING CHECKS

During our audit of cash accounts, we noted several checks that had been outstanding for more than six months. We recommend these checks be investigated and handled in accordance with appropriate laws or city requirements.

**Management's response** – The current city policy is to review all outstanding checks on a yearly basis in order to maintain a reasonably current outstanding checklist, to resolve questionable/sizeable outstanding items, and to ensure compliance with state law (L.A.R.S. 9:188 "Uniform Property Act of 1997") requiring escheat of wages and refund of deposits for utilities one year after payable and all other five years after obligation to pay.

**2008 STATUS - (reported by the Controller) – Complete.** Checks are reviewed on a regular and annual basis and reported to the state in accordance with state law (L.A.R.S. 9:188 "Uniform Property Act of 1997").

## INFORMATION TECHNOLOGY

### 11. INFORMATION TECHNOLOGY

a. During our review of the City's information technology (IT) department and its policies and procedures we noted the following:

During the time of our firewall testing, the firewall ruleset had been disabled for over two months dating back to the last week of December. No other mitigating factors were noted to reduce the possibility of a future unauthorized user to access the network. Network login attempts were not currently being logged, and firewall logging was only set at 10 mega-bytes, (approximately one week's worth of log-ins are recorded) and no control point exists. We recommend that the IT department enable the firewall ruleset and/or use an intrusion detection/prevention system (IDS/IPS), which would monitor and alert/halt the network for abnormal activity.

**Management's response** – Our firewall is Novell's BorderManager. At the time of the audit, BorderManager had lost all of its filter exceptions in the ruleset. IT opened a support incident with Novell, and was informed that there was no way to retrieve/restore the filters and that all filters would have to be recreated manually. Some filters were re-entered, but BorderManager did not retain the changes to the ruleset. At that time, IT began investigating an alternative to BorderManager. During the audit, we were evaluating pfSense as an alternative firewall, but that was not noted by the auditors. Since then, we have upgraded to the latest revision of BorderManager, and recreated the ruleset.

We do not log network login attempts, but do have Intruder Protection enabled for all users. Intruder Protection locks a user's account for 30 minutes after three unsuccessful

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login attempts. We have considered account auditing, but were told by DigiCom Systems (DSI) (a consulting group from New Orleans) that it placed overhead on the servers.

Firewall logs are set to save 10 mega-bytes per file. Multiple log files are generated per day, and these are burned to CD/DVD and retained indefinitely.

**2008 STATUS (reported by the LAN Manager) – Complete.** Firewall rules are enabled. Logs are being kept on DVD. Explanation on previous page. Services restored approximately one week after audit.

**b.** One employee had water billing access who no longer worked in the water department. We recommend that the City review access directories periodically to ensure only appropriate access is granted to employees.

**Management's response:** IT does not know when someone is transferred or discharged. IT relies on list/reports from the security administrators/personnel. As a result of the last audit, IT sends an email to each security administrator on a quarterly basis (this was done as a result of the 2006 audit). It is the responsibility of each security administrator to return an E-mail to IT with the correct information. Once IT gets this information, we correct the access according to the list. This is in addition to the monthly discharge list IT receives from the personnel department. These quarterly emails are kept on file to verify that they were sent.

**2008 STATUS (reported by the Senior Systems Programmer) – Complete.** Emails are being sent periodically for review to departmental security contacts showing their employees and their accesses. Monthly termination reports and any deletion requests sent by the departments are processed.

## **B. FINANCIAL STATEMENT FINDINGS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

### **FINANCE**

#### **1. FINANCIAL REPORTING**

**Item:** 07-01

**Criteria or Specific Requirement:** The annual audited financial statements of the City are required to be completed and submitted to the Louisiana Legislative Auditor within six months of the City's year-end or June 30, 2008.

**Condition Found:** The audited financial statements were not completed by June 30, 2008.

**Effect:** Noncompliance with state law regarding financial reporting

**Cause:** Complete information was not available in a timely manner to allow the preparation and audit of the financial statements within the time period required.

**Recommendation:** We recommend the City take the appropriate steps to ensure all financial information is prepared timely to allow the City to meet the legal deadline for financial reporting.

**Management's Response:** Management concurs with the finding and recommendation. Management will request information needed from outside sources well in advance of year-end and provide them with target dates for completion.

**2008 STATUS (Reported by the Controller) – Complete.** Management will request information needed from outside sources well in advance of year-end and provide them with target dates for completion.

## **C. PASSENGER FACILITY CHARGE PROGRAM**

### **FINANCE**

#### **1. FINANCIAL REPORTING**

**Item:** 07-01

**Criteria or Specific Requirement:** The annual audited financial statements of the City are required to be completed and submitted to the Louisiana Legislative Auditor within six months of the City's year-end or June 30, 2008.

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**Management's Response:** Management concurs with the finding and recommendation. Management will request information needed from outside sources well in advance of year-end and provide them with target dates for completion.

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**2008 STATUS (Reported by the Controller) – Complete.** Management will request information needed from outside sources well in advance of year-end and provide them with target dates for completion.

Prepared By:

Tamika Ford  
Staff Auditor

Approved By:

Leanis L. Graham, CIA, CPA  
City Internal Auditor

TF:lp

c: Mayor  
    CAO  
    City Attorney  
    City Council  
    Clerk of Council  
    External Auditor  
    Director of Finance  
    Director of Airports  
    Director of Community Development  
    Data Services Administrator